



SF 2300 – Renewable Chemical Production Income Tax Credit (LSB5172SZ)
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Fiscal Note Version – New

Description

Senate File 2300 creates a Renewable Chemical Production Tax Credit. The new credit is equal to \$0.05 per pound of qualified chemicals produced, applies to individual and corporate income tax, and is refundable. The credit is available for chemicals produced beginning January 1, 2017, and ending December 31, 2026 (10 years).

The new tax credit is limited to no more than \$10.0 million per fiscal year in total awards and the credit is placed under the Economic Development Authority's (EDA) \$170.0 million aggregate annual tax credit cap established in Iowa Code [section 15.119](#). While the tax credit is available for chemicals produced during a 10-year window, the new credit remains part of the \$170.0 million annual tax cap through FY 2030. This allows for 12 or 13 years¹ of \$10.0 million in annual tax credit awards, or a maximum of \$120.0 to \$130.0 million over the course of the program.

Should valid tax credit applications exceed the annual \$10.0 million available, the excess applications are awarded the first tax credits the following year. After the final year of eligible production (calendar year 2026), any eligible tax credit applications that do not receive tax credits due to the annual limit will receive tax credits the next year until the backlog is eliminated or until the end of FY 2030, whichever occurs first.

The new credit cannot be awarded until July 1, 2018, and cannot be redeemed until September 1, 2018. The maximum annual amount an existing business may receive in tax credits is \$500,000 and the maximum annual amount a new business may receive is \$1.0 million. In both instances, a company may only receive the credit for five years. Eligibility for the new credit is limited to businesses that organize, expand, or locate in Iowa on or after the effective date of the bill.

The bill also reduces the annual amount of tax credits that may be awarded by the EDA under the existing [High Quality Jobs Program](#) for five fiscal years. While that Program does not currently have an annual limit, it is effectively capped at \$130.0 million per year through the application of the \$170.0 million aggregate annual tax credit cap. For five fiscal years (FY 2017 through FY 2021), the bill caps the High Quality Jobs Program at \$105.0 million per year. The bill also provides that, should the Renewable Chemical Production Tax Credit awards exceed \$27.0 million during the first four years of availability, the High Quality Jobs Program is limited to \$105.0 million for an additional year.

¹ Twelve years of potential chemical tax credit allocations will occur if the EDA first allocates tax credits to the new program beginning with FY 2019. Thirteen years will occur if the EDA allocates tax credits to the new program beginning with FY 2018. While the amount of tax credits requested for the initial year of availability will be known during FY 2018, the first credits cannot be awarded until FY 2019. It is not clear whether the EDA can allocate tax credits under the \$170.0 million cap that cannot be awarded until the next fiscal year.

Assumptions

Renewable Chemical Production Tax Credit Projection – Projected tax credit redemptions are made by the Department of Revenue in consultation with Iowa State University using the following assumptions:

- Over the 10 years of credit availability, 25 existing companies will produce eligible renewable chemicals totaling 1.25 billion pounds or more, and receive a combined \$62.5 million in Renewable Chemical Production Tax Credits.
- Over the 10 years of credit availability, six new (or newly located in Iowa) companies will produce renewable chemicals totaling 0.60 billion pounds or more, and receive a combined \$30.0 million in Renewable Chemical Production Tax Credits.
- While credits are first available for production during the 2017 calendar year, credits cannot be awarded until July 1, 2018, and cannot be claimed until September 1, 2018. Therefore, there is no assumed impact resulting from credit redemptions until FY 2019.
- The credits are refundable, so all awarded credits are assumed to be redeemed. The redemption pattern is assumed to follow the redemption pattern of the existing refundable Research Activities Tax Credit.

Fiscal year of award = 0.0%
 Fiscal year of award year plus 1 year = 16.37%
 Fiscal year of award year plus 2 years = 74.54%
 Fiscal year of award year plus 3 years = 9.09%

- The following table is based on the previous assumptions. It presents the estimated pounds of chemicals produced and eligible for tax credits, the timing for tax credits earned and awarded, and in the right hand column, the direct impact on net General Fund revenue that is the result of redemption of the new tax credits.

Renewable Chemical Production Tax Credit					
Pounds of Eligible Chemicals Earning Tax Credits and Fiscal Impact of Credit Redemptions					
	Pounds of Eligible Chemicals (in Millions)	Tax Credits Earned	Tax Credits Awarded		Tax Credits Redeemed (Fiscal Impact)
CY 2017	70.0	\$ 3,500,000	\$ 3,500,000	FY 2018	\$ 0
CY 2018	120.0	6,000,000	6,000,000	FY 2019	-1,470,725
CY 2019	150.0	7,500,000	7,500,000	FY 2020	-4,197,900
CY 2020	200.0	10,000,000	10,000,000	FY 2021	-6,456,950
CY 2021	230.0	11,500,000	10,000,000	FY 2022	-8,272,863
CY 2022	300.0	15,000,000	10,000,000	FY 2023	-9,829,563
CY 2023	250.0	12,500,000	10,000,000	FY 2024	-10,000,000
CY 2024	220.0	11,000,000	10,000,000	FY 2025	-10,000,000
CY 2025	170.0	8,500,000	10,000,000	FY 2026	-10,000,000
CY 2026	140.0	7,000,000	10,000,000	FY 2027	-10,000,000
CY 2027	0.0	0	5,500,000	FY 2028	-9,815,838
CY 2028	0.0	0	0	FY 2029	-8,199,688
CY 2029	0.0	0	0	FY 2030	-3,881,513
CY 2030	0.0	0	0	FY 2031	-374,963
	1,850.0	\$ 92,500,000	\$ 92,500,000		\$-92,500,000

High Quality Jobs Tax Credit Reduction – Tax credit redemption projections are made by the Department of Revenue using historical redemption patterns for the various tax credits available under the High Quality Jobs Program:

- The state tax credits available under the High Quality Jobs Program include an investment tax credit, a Supplemental Research Activities Tax Credit, and a sales/use tax refund. Most of the tax incentives under the Program are not refundable. On average, approximately 45.0% to 55.0% of tax credits awarded under the High Quality Jobs Program are actually redeemed. For this projection, the redemption of High Quality Jobs Tax Credits is projected to equal 50.0% across fiscal years.
- A tax credit award under the High Quality Jobs Program is distributed over five years and each year has a potential seven-year carryforward period. Therefore, tax credits awarded under the Program take many years to be redeemed.
- The bill reduces the available tax credits under the High Quality Jobs Program by \$25.0 million per year for five fiscal years for a total reduction in those five years of \$125.0 million. In addition, the \$170.0 million aggregate tax credit cap will require the EDA to reduce the High Quality Jobs Program by \$10.0 million in each of six fiscal years (FY 2022 through FY 2027), for a total additional reduction of \$60.0 million. The combined reduction over 10 fiscal years is \$185.0 million. Using the assumed redemption rate of 50.0%, the \$185.0 million reduction in High Quality Jobs Tax Credit awards is projected to reduce tax credit redemptions \$92.5 million over 24 fiscal years.

FY 2017	\$ 30,000	FY 2026	\$ 7,890,000
FY 2018	580,000	FY 2027	6,820,000
FY 2019	2,860,000	FY 2028	5,480,000
FY 2020	4,370,000	FY 2029	5,250,000
FY 2021	5,910,000	FY 2030	4,590,000
FY 2022	8,400,000	FY 2031	3,630,000
FY 2023	10,520,000	FY 2032	2,850,000
FY 2024	9,530,000	<u>FY33 to FY40</u>	<u>5,010,000</u>
FY 2025	8,780,000	Total	\$ 92,500,000

Fiscal Impact — State General Fund

The creation of a new Renewable Chemical Production Tax Credit and the reduction in tax credits available under the High Quality Jobs Program impacts 24 fiscal years, with positive revenue impacts in FY 2018 through FY 2020. Over the 24 years, the projected impact of the changes nets to zero.

However, should demand for the new tax credit exceed projections, the direct impact on the State General Fund across all impacted fiscal years will be negative. Any negative impact will occur after FY 2028.

Projected Net Impact on General Fund Revenue			
In Millions			
	<u>Chemical Tax</u>	<u>HQJ Tax Credit</u>	<u>Net Fiscal</u>
	<u>Credit Redemptions</u>	<u>Redemptions</u>	<u>Impact</u>
FY 2017	\$ 0.0	\$ 0.0	\$ 0.0
FY 2018	0.0	0.6	0.6
FY 2019	-0.6	2.9	2.3
FY 2020	-3.6	4.4	0.8
FY 2021	-6.0	5.9	-0.1
FY 2022	-7.8	8.4	0.6
FY 2023	-9.8	10.5	0.7
FY 2024	-10.0	9.5	-0.5
FY 2025	-10.0	8.8	-1.2
FY 2026	-10.0	7.9	-2.1
FY 2027	-10.0	6.8	-3.2
FY 2028	-10.0	5.5	-4.5
FY 2029	-9.3	5.4	-3.9
FY 2030	-5.0	5.0	-0.0
FY 2031	-0.5	3.9	3.4
FY 2032	0.0	3.5	3.5
FY 2033	0.0	3.5	3.5
	<u>\$ -92.5</u>	<u>\$ 92.5</u>	<u>\$ 0.0</u>

Fiscal Impact – Other Issues

The new tax credit is a refundable tax credit and it is available for individual and corporate income taxpayers. Refundable tax credits do not impact the calculation of the local option income surtax for schools that applies to many individual income taxpayers. The investment tax credit portion of the High Quality Jobs Program is not refundable. Nonrefundable tax credits do impact the surtax calculation. The change to the new credit is expected to have a modest positive impact on local school revenue derived from the local option income surtax for schools.

Applicants for the new tax credit will be assessed EDA compliance cost administrative fees totaling \$500 per application plus 0.5% of the tax credits redeemed. The reduction in High Quality Jobs Tax Credit awards will reduce EDA fees collected under that Program. The two EDA revenue changes should offset.

The Department of Revenue states that the creation of a Renewable Chemical Production Tax Credit will require additional administrative, information technology, and tax credit tracking costs for the Department. The additional development cost is estimated to be a one-time cost of \$90,000.

Sources

Iowa Department of Revenue
Iowa State University

/s/ Holly M. Lyons

March 14, 2016

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the LSA upon request.
